EL Financial Corporation Limited

2002 Annual Report

Financial Corporation Limited and subsidiary companies

The Year at a Glance

34th Annual Report	2002	2001
Total Premiums	**$ 1,107,295,000**	$ 966,826,000
Total Revenues	**1,380,163,000**	1,306,691,000
Net Income (excluding investment gains)	**27,238,000**	37,516,000
Net Income (including investment gains)	**51,512,000**	77,181,000
Total Assets (including segregated funds)	**6,433,194,000**	6,380,138,000
Shareholders' Equity	**1,267,385,000**	1,248,360,000
Net Income (excluding investment gains) per Share	**7.09**	9.77
Net Income (including investment gains) per Share	**13.41**	20.10

Note: Per share earnings figures assume full conversion of the Company's convertible preference shares.

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held at 11:45 a.m. Toronto time on Thursday, May 1, 2003 at the Company's head office, 165 University Avenue, Toronto. All shareholders are invited to attend.

Head Office	Tenth Floor, 165 University Avenue, Toronto, Ontario M5H 3B8
	Telephone (416) 947-2578
Shares Listed	Toronto Stock Exchange
Auditors	Deloitte & Touche LLP
Transfer Agent and Registrar	Computershare Trust Company of Canada

E-L Financial Corporation Limited and subsidiary companies

Board of Directors

Paul G. S. Cantor,
Managing Director, Russell Reynolds Associates

George L. Cooke, LL.D.,
President and Chief Executive Officer, The Dominion of Canada General Insurance Company

William J. Corcoran, LL.B.,
Vice-Chairman, Jarislowsky Fraser Limited

E. Kendall Cork,
Managing Director, Sentinel Associates Limited

Douglas G. Hogeboom, F.S.A., F.C.I.A.,
President and Chief Executive Officer, The Empire Life Insurance Company

Duncan N.R. Jackman,
Chairman and President, E-L Financial Corporation Limited

The Honourable Henry N.R. Jackman,
President, Dominion and Anglo Investment Corporation Limited

James W. McCutcheon, Q.C.,
Counsel, McCarthy Tétrault

Christopher H. McElvaine, F.S.A., F.C.I.A.,
Corporate Director

Clive P. Rowe,
Partner, SLS Capital

Douglas C. Townsend, F.S.A., F.C.I.A.,
President, Townsend Actuarial Consulting Ltd.

Manon R. Vennat, C.M.,
Chairman, Montreal, Spencer Stuart & Associates (Canada) Ltd.

Honorary Directors

Peter S. Gooderham,
Corporate Director

The Right Honourable John N. Turner, P.C., C.C., Q.C.,
Partner, Miller Thomson

Officers

Chairman and President
Duncan N.R. Jackman

Vice-Chairman
E. Kendall Cork

Executive Vice-Presidents

Douglas G. Hogeboom
President and Chief Executive Officer
The Empire Life Insurance Company

George L. Cooke
President and Chief Executive Officer
The Dominion of Canada General Insurance Company

Vice-President, Finance and Secretary
Mark M. Taylor

Management's Discussion and Analysis

Report on E-L Financial Corporation Limited

E-L Financial Corporation Limited ("the Company") operates as an investment holding company. It owns 100% of The Dominion of Canada General Insurance Company and 80% of The Empire Life Insurance Company. The Company also owns an investment portfolio.

Overview of results

The consolidated financial statements that follow reflect the results and financial position of the two insurance companies and the Company's portfolio investments. Additional information is provided in the notes to the financial statements and the five year summary of results.

For the year ended December 31, 2002, net income before investment gains totalled $27.2 million or $7.09 per share compared with $37.5 million or $9.77 per share for the previous year.

If investment gains are included, net income for 2002 was $51.5 million or $13.41 per share compared with $77.2 million or $20.10 per share in 2001.

The following table summarizes the results of the Company's business segments.

(thousands of dollars)

	Portfolio Investments		General Insurance		Life Insurance		Total	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Net income:								
Income (loss) excluding undernoted	**$10,378**	$8,878	**$17,872**	$12,256	**$ (1,012)**	$16,382	**$27,238**	$37,516
Amortization of investment gains and losses	**—**	—	**—**	—	**12,658**	13,259	**12,658**	13,259
Gain on sale of investments	**3,430**	2,508	**8,186**	23,898	**—**	—	**11,616**	26,406
	$13,808	$11,386	**$26,058**	$36,154	**$11,646**	$29,641	**$51,512**	$77,181

The Company's strategy is to accumulate wealth within each of its investee companies. The Company manages its investments through representation on the boards of directors of the two insurance subsidiaries and of the investment companies in which the Company has shareholdings.

The Company manages a portfolio of publicly traded fixed income and equity securities both directly and indirectly through a number of closed-end investment fund corporations and other investment companies. The Company's primary objective is to accumulate shareholder value through long term appreciation in its equity holdings and through a combination of stable earnings and capital growth in its bond portfolio.

The Company's portfolio investments are carried at market value on the balance sheet. The difference between the market value and cost of these investments, net of relevant future income taxes, is recorded as unrealized appreciation of portfolio investments.

In 2002, the unrealized appreciation in the Company's portfolio investments decreased $24.7 million (2001 - an increase of $51.7 million) or a decline of approximately 4.0% (2001 - an increase of 9.3%) in the market value of the investment portfolio. The majority of the unrealized appreciation is related to the Company's investment in publicly traded closed-end investment fund corporations.

The results and financial position of the two insurance companies are further described in each of their management's discussion and analysis.

Outlook and risks

The Company's future prospects are in part a function of the continued profitability of the two insurance company investees. Future prospects are also, in part, a function of the successful management of its investment portfolios in the face of ongoing changes in financial markets.

The insurance companies are federally regulated financial institutions. These companies operate in competitive marketplaces that recently have experienced significant changes. For Life and Health, these include consolidation, increased price competition and lower investment yields. For Property and Casualty, 2002 marked one of the most severe turns in the insurance cycles recorded, and hard markets with severe price increases, strict terms and reduced capacity are expected to continue in the near future.

The insurance companies' future prospects will, in part, be a function of their ability to effectively manage their operations, including the pricing and distribution of their products; and the availability and access to capital. Future success will also be a function of continued focus on cost-containment, service enhancement, investment management performance, appropriate pricing strategies and effective use of technology. Risks relating to the Company's financial instruments are described further in the notes to the financial statements.

Retirement of the Chairman

The Board would like to express its tremendous gratitude towards its departing Chairman, The Honourable Henry N.R. Jackman. The Company was founded by Mr. Jackman along with his father, Henry R. Jackman in 1968, and in so doing created one of the first financial holding companies of its kind. The initial public offering was at $10 in 1968; the closing price for the Company was $230 at the end of 2002. Shareholders' equity in 1968 was $13.8 million and $1.27 billion at the end of 2002. It should be noted that the entire growth in shareholders' equity was derived from retained earnings and that the vast majority of this growth was during our departing Chairman's tenure. We look forward to Mr. Jackman's continued participation on the Company's Board and will certainly continue to seek his sound advice.

Management's Discussion and Analysis
Report on General Insurance Operations
Mr. George L. Cooke

The Dominion of Canada General Insurance Company ("Dominion"), a wholly owned subsidiary of E-L Financial Corporation Limited, is licensed to underwrite property and casualty (P&C) insurance in all jurisdictions in Canada. Its operations are concentrated in Ontario, Alberta, British Columbia and the Atlantic provinces. On January 1, 2002, Dominion and its wholly-owned subsidiary, Chieftain Insurance Company ("Chieftain") amalgamated and continued under the name "The Dominion of Canada General Insurance Company," with Chieftain as an operating division. Chieftain underwrites higher coverage continuous policies for personal automobile and personal property in Ontario. The 2001 comparatives reflected in the accompanying financial statements and in this management discussion and analysis incorporate the consolidated results of Dominion and Chieftain (collectively, the "Company").

Overview

Net income for 2002 was $26.1 million compared to $36.2 million in the prior year. Return on average equity was 6.8% in 2002 compared to 10.2% in 2001. The reduction in earnings reflects lower realized investment gains and income, which more than offset a planned improvement in underwriting results. Underwriting results, at a combined ratio (total expenses divided by premium income) of 104.2% in 2002, improved 2.2 points from 106.4% in the prior year. Page 39 of this report provides an overview of financial results and position for the five-year period from 1998 to 2002. Management expects overall earnings growth in 2003 through continued improvement in the combined ratio, partially offset by further declines in investment income.

Industry economics and management's strategy

The function of a P&C insurer is to pool the risks of its customers, collecting a premium from each in order to fund the covered claims of the few. In essence, the premiums collected are a form of quasi debt financing. Premiums, less underwriting expenses (commissions, operating expenses and premium taxes), are held and invested (the "insurance float") until they are eventually repaid in the form of claims payments. The annual "cost of borrowing" on the insurance float is the insurer's underwriting loss for the year, which is the excess of claims and underwriting expenses over premiums earned. An insurer generates a margin by earning an investment return on the insurance float that exceeds the underwriting loss. This margin on the insurance float is in addition to the investment return earned on other investments which are held in support of shareholder capital. Typically, P&C insurers require relatively little working capital and, as a result of collecting premiums in advance of paying claims, can enjoy a high degree of liquidity, if well managed. The function of shareholder capital is to provide a buffer for large unusual losses or in the event that existing provisions for net unpaid claims prove to be inadequate. Regulators establish minimum capital requirements for insurers to maintain.

The key performance drivers of a P&C insurer are appropriate pricing, competent and efficient distribution, effective underwriting (the acceptance of "risks" and properly classifying them), product management (policy terms and conditions), customer service (enquiries, changes to policy particulars), claims service, conservative claims provisioning, skilled human resources, cost control, sensible use of technology, and successful management of capital, comprising investments, reinsurance and liquidity. Some insurers write specialized, less understood risks and generate their margin from being a niche supplier. The majority of insurers, including the Company, focus on standard price-sensitive products and generate a margin from strong risk selection and efficient execution. Although the Company's major product, Ontario automobile, is in many respects a competitive commodity, it is in other respects a less mature product because it has been changed by the government three times in the last decade.

Report on General Insurance Operations (cont'd)

Mr. George L. Cooke

Management's goal is to achieve, over time, a target return on equity which is based on a specified risk free market yield plus a specified risk premium for investing in a P&C entity. In addition, management seeks to regularly generate a higher return on shareholder capital than its industry peers. The Company's salient strategies and results for the key performance drivers are discussed in the relevant sections in this report. Management continuously reassesses and adapts its strategies in response to industry dynamics and in anticipation of emerging trends.

Industry dynamics

2002 marked one of the most severe turns in the P&C insurance cycle in decades, globally and in Canada. In recent years, equity investment gains and favourable development of claims reserves fuelled unrestrained competition for market share, allowing for the ensuing inadequate pricing and undisciplined underwriting. A correction was long overdue when the 9/11 tragedy in 2001 accelerated a return to underwriting and pricing discipline. Combined with unexpected asbestos claims development in the U.S. and elsewhere and "bear" stock markets in 2002, insurers have reacted with severe price increases, stricter policy terms and reduced capacity.

Third quarter data from the Insurance Bureau of Canada suggests that 2002 will replace 2001 as being the Canadian industry's worst result on record. Despite large premium increases in 2002, the industry loss ratio is basically unchanged due to a similar escalation in claims costs. The industry expense ratio declined because price increases are exceeding operating expense inflation. However, declining investment returns offset improvements in the expense ratio. In 2002, stock market declines further weakened the capital position of many competitors and created funding deficits in defined benefit pension plans. Investment declines, reduced net income and increasing leverage (premiums versus capital) is resulting in a growing number of Canadian entities falling toward and below the regulator's solvency requirements. Two thirds of Canadian P&C market share is controlled by foreign-owned competitors and the difficulties of many of their Canadian operations are exacerbated by the problems their parent companies are facing.

In contrast, the Company has continued to outperform the industry average by improving its loss ratio for the second consecutive year while maintaining strong capital. In addition, while many Canadian competitors restricted new business and cancelled existing business in 2002, the Company grew its policy count while maintaining strict underwriting vigilance.

Premium revenue

In 2002, gross written premiums increased by 22.7% (5.1% in 2001). Growth in 2002 consisted of an increase in average premiums of 17.3% (7.2% in 2001) and an increase in policies in force of 5.4% (decrease of 2.1% in 2001). Policies were lost in 2001 as the expected outcome from taking price increases and intensifying underwriting discipline ahead of the industry. The growth in policy counts in 2002 reflects the fact that the Company has been "open for business" for its brokers in this hard market in which many of our competitors have been reducing policy counts due to their insufficient capital and results. The Company's capacity to grow derives from better profitability and a stronger capital base, with which we can comfortably increase leverage. The Company plans to grow policy counts and premium rates by similar percentages in 2003.

For personal lines and some commercial products, the Company sets premium rates based on actuarial analysis and consideration of competitive market forces. Some commercial products are priced by individual underwriters, as part of the underwriting process, subject to targets established by management. Our pricing strategy is to be fair to our customers, while obtaining price adequacy in each segment, as the market allows. As a result, our prices are usually in the higher end of the range, compared to our peers. Standard P&C products are, however, very price sensitive and management considers carefully the impact of price increases on our best customers whom we seek to retain.

The Company distributes solely through independent brokers, being the channel that distributes the majority of P&C insurance products in Canada. Accordingly, the Company's success in the short-term is contingent on the ongoing success of brokers and on management's strategic foresight and ability to respond to threats to the broker distribution channel. Independent brokers continue to be the preferred channel of consumers and are expected to continue to dominate the Canadian insurance market.

The Company's relationship with brokers is important for our success. Management seeks to grow its goodwill with brokers by being a supportive partner in supplying their customers with reliable, consistent service at a fair price. With many insurers reducing their written premiums, brokers are working feverishly to find other insurers willing to write their displaced business. Our availability to write business in this difficult market has strengthened broker loyalty and support. The Company monitors its relative position with its brokers and actively seeks to be a top-three supplier, if not the primary one, within a brokers' operation. The majority of the Company's technology development consists of initiatives to improve brokers' ease of doing business with the Company. In light of the problems facing many foreign owned competitors, brokers have appreciated the Company's locally focused and prompt decision-making, which reflects the benefits of being Canadian-owned and managed and of maintaining strong capital.

Our growth strategy is not focused on market share or absolute size, as an end. Economies of scale are elusive in the P&C market and there continue to be too many players, causing excessive competition and extreme soft market swings. Our strategy is to maintain sufficient size and presence in the market place in order to be relevant to brokers so that they continue to grow their business with us. Accordingly, management's annual growth targets are established with a view to optimizing earnings growth, while maintaining a relevant presence with brokers.

Underwriting results by product line

The Company underwrites standard general insurance products through eight territories which are concentrated in four geographic areas. The geographic mix of premiums in 2002 is largely unchanged from the prior year and is as follows: Ontario 70%, Western region 14%, Atlantic provinces 10% and Pacific region 6%. Product mix is fairly consistent across the regions, except that Pacific region's business is mostly property, due to the government monopoly on automobile business in British Columbia. The loss ratio (claims divided by premium income) is a key indicator of underwriting performance and management monitors loss ratios by product line for each of its regional centres.

Report on General Insurance Operations (cont'd)

Mr. George L. Cooke

The following table and commentary summarize the results of underwriting operations by major product category (dollar figures are in millions).

	Automobile		Personal Property		Commercial Property & Casualty		Total	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Gross written premium	**$ 507**	$ 415	**$ 164**	$ 142	**$ 141**	$ 104	**$ 812**	$ 661
Growth %	**22.2**	4.8	**14.7**	2.2	**34.4**	10.8	**22.7**	5.1
Mix of business %	**63**	63	**20**	22	**17**	15	**100**	100
Net earned premium	**$ 452**	$ 403	**$ 139**	$ 133	**$ 111**	$ 90	**$ 702**	$ 626
Claims	**$ 356**	$ 323	**$ 97**	$ 92	**$ 60**	$ 56	**$ 513**	$ 471
Loss ratio %	**78.8**	80.1	**69.5**	69.1	**54.0**	62.4	**73.1**	75.3

Automobile

Growth of 22.2% was achieved through a 14.4% increase in average written premiums, as a result of rate increases, and a 7.8% increase in policies in force. In both personal and commercial automobile lines, claims frequency decreased significantly, after having increased in each of the prior three years; however, the benefit of fewer claims in 2002 was more than offset by an increase in the average cost per claim (severity). The results from the personal auto line (50% of total premiums) did not improve but repeated last year's loss ratio of 79.9%; the net increase in claims costs matched the effect of rate increases. Commercial auto's loss ratio improved significantly, to 68.0% from last year's 77.0%, since the higher rate increases in commercial auto outpaced the impact of increasing claims costs. Given the continued high rate of growth in claims costs, more rate increases in all lines are required and have been planned for 2003.

Personal property

14.7% growth was generated from an increase of 11.3% in average premiums and an increase of 3.4% in policies in force. Claims frequency declined in 2002, but as with auto, severity increased. Earned rate increases exceeded the net increase in claims costs. However, related reinsurance costs also increased (reducing premium income), producing a slightly worse loss ratio than last year. More rate increases in 2003 are expected to produce further improvement.

Commercial property, casualty and surety

These coverages are generally sold together in package policies. The Company's commercial business is typically main-line small to mid-sized exposures and on the conservative end of the risk spectrum. Growth in these lines came from an average premium increase of 30.4% and an increase in policy counts of 4.0%. In 2002, earned rate increases and reduced frequency outpaced increased claims severity.

Management of policy liabilities and claims settlement

Management's provision for unpaid and unreported claims is based on actuarially determined estimates for all costs of investigation and settlement of claims occurring prior to year end. Many assumptions underlie these estimates such as claims frequency and severity, claims payment trends, inflation and interest rates, potential changes in legislation and the interpretation of liability by the courts. Ultimate costs incurred will inevitably vary from current estimates. During 2002, the ongoing actuarial re-evaluation of provisions for unpaid claims arising in prior years resulted in a $7.2 million increase in those provisions, which is included as an increase in claims expense in 2002 (2001 - $4.0 million reduction in prior year reserves and claims expense). The increase in 2002 reflects a higher than expected severity in prior year Ontario automobile claims, reflecting in part the cascading effects of the dilution by the courts in the threshold to qualify for bodily injury general damages; and escalating abuse of the accident benefit arbitration system.

The Company writes a significant amount of personal and commercial property business in British Columbia and, accordingly, is exposed to loss from a major earthquake. Management mitigates this exposure through appropriate reinsurance coverage and conservative measurement and management processes, including strict underwriting guidelines, effective use of deductibles, adequate pricing and management of the earthquake exposure capacity allocated to each broker. The Company's financial preparedness for an earthquake, through its catastrophe reinsurance agreements and through its own capital, exceeds the federal regulator's requirements.

We seek to deliver high quality claims service in order to attract and retain good customers and preserve the support of our brokers. Our claims settlement philosophy is to provide the same degree of quality service in every interaction with a customer, regardless of the size or type of claim. We emphasize proactive communication to customers regarding the claims process and what they can expect, and to provide a sympathetic and comfortable experience. However, we will not overpay a claim in the name of service, since that unfairly increases the cost of insurance to all customers. The Company engages an independent firm to conduct a claims satisfaction survey annually; our claimants consistently report being satisfied with the Company's service. To meet ever-increasing service expectations, claims management continue to build a culture where quality service and continuous improvement are valued and rewarded.

Expenses

The expense ratio (the sum of commissions, operating expenses and premium taxes, divided by premium income) of 31.1% in 2002 is unchanged from 2001. The majority of expenses consists of base commissions and premium taxes which are both based on fixed percentages of the applicable premiums. Thus, there is no economy of scale from two thirds of operating expenses. In 2002 these represented 19.0% of premium income (2001 – 18.9%). Contingent Profit Bonus (CPB) commissions are paid to brokers based on the size and profitability of their business with the Company. The improving loss ratio in 2002 resulted in CPB of 2.5% of premium income (2001 - 2.0%), causing the expense ratio to increase by 0.5%. Offsetting this increase was a decrease, by 0.6%, in the Company's operating expenses, to 10.0% of premium income, reflecting the fact that earned price increases exceed expense inflation. In absolute dollars, operating expenses increased $4.0 million over the prior year, mainly from annual salary increases, increased staff levels and some directly variable processing costs.

Salaries comprise over two thirds of operating expenses. P&C insurance is a knowledge-based service industry and, accordingly, skilled, experienced and effective human resources are the Company's most important internal resource. Staff levels were increased in 2002 in order to maintain service levels through a significantly rising volume of insurance applications. Underlying the 5.4% policy count growth rate is a much higher actual level of operating activity. Brokers are submitting record levels of applications and the Company's underwriting discipline is resulting in larger numbers of declined applications than usual. Further increases in staff are planned in 2003 to manage the planned growth in business activity, which is expected to be similar to 2002. The Company's human resource management practices focus on providing an enriched work experience and maintaining a performance-based compensation program that is in line with the industry. Annual performance appraisals, annual salary review, and the management bonus program, are all geared toward promoting and rewarding employees who "Make a Difference." The Company has successfully conducted its own underwriting and claims trainee programs for recruiting candidates without insurance experience. Many trainees stay on to become successful employees who progress in their career with the Company.

After salaries, technology is the most significant cost. About two thirds of the annual technology expenditure is the cost of running existing system operations. With respect to system development, the Company follows a technology strategy of making steady incremental improvements within a disciplined budget. Most of the development effort is for multi-year initiatives to improve brokers' "ease of doing business" with the Company, to improve access to decision-valuable information for staff and brokers and to enhance operating efficiency. In 2002, functionality was enhanced on the Company's web-portal used by brokers to access customer information directly from the Company's system. The Company also introduced a tool to assess segments of new business and a claims auditing tool which automates identification of policies with claims requiring review and possible underwriting action. The Company's contingent profit bonus program for brokers was automated in 2002. In 2003 work will continue on adding, to the broker web-portal, policy change functionality for Ontario automobile and Ontario personal property, and automation for internal commercial auto processing.

Investments and capital

Investment income (interest and dividends) before income tax was $49.2 million in 2002, a decrease of $2.9 million from 2001. The decrease reflects a lower investment yield of 4.2% in 2002 (2001 - 4.8%), offsetting the benefit of a higher average portfolio balance from premium growth. The average balance of investments and cash grew 9.1% (9.5% in 2001) as a result of positive cash flow from operations and reinvestment of proceeds from realized gains. The Company's book yield is expected to decrease slightly during 2003, since existing book yields are higher than the expected market yields at which maturity proceeds will be reinvested.

Gain on sale of investments was $10.6 million (before income taxes), compared to $40.6 million in the prior year. Realized gains and losses result from trading decisions which are made to maximize the ongoing economic return of the Company's portfolios and, accordingly, do not follow a predictable pattern from year to year.

Excluding cash, the investment portfolio mix at December 31, 2002 consisted of 51% bonds (2001 - 52%) and 41% stocks (2001 - 42%). The Company manages its investments to provide for the payment of policy liabilities and to provide a return on shareholder's equity. Policy liabilities are supported by fixed income investments, predominantly government bonds and some high quality corporate bonds. High quality preferred shares are also held because of their superior after-tax yields, since their dividends are fully deductible. Given the uncertainty in the quantum and timing of claims payments for property and casualty claims, strict asset and liability matching is neither feasible nor necessarily optimal. The Company manages the duration of its bond portfolio within a broad range, between 50% to 300% of the Company's duration of claims liabilities, which is typically between three to four years. The Company has typically maintained its bond duration between 100% to 200% of the duration of its claims liabilities in order to pursue the higher yields which are usually available in the longer portion of a normal yield curve.

At December 31, 2002, the bond duration of 5.2 is 186% of the claims duration (2001 - 139%). Given the Company's significant mix of bonds and deliberate exposure to a longer asset duration, volatility in the financial markets, particularly in interest rates, can have a significant impact on the market value of the investment portfolio. The Company's fixed income investment managers proactively monitor market conditions and make adjustments in anticipation of significant market changes. The Company's usual maturity profile also allows for ongoing liquidity to be maintained such that the Company can operate for some time with minimal need to liquidate securities and thus minimize realized losses from disposal at unfavourable market values.

Maintaining sufficient liquidity is essential to fund the ongoing payment of claims, including the increased requirements of a sudden catastrophe. Cash flow from premium collection and from interest and dividends is typically more than adequate for meeting claims payments. In addition, the Company's mix of bonds maturing within two years has averaged 18% of the fixed income portfolio, as at December 31, over the last five years (15% at December 31, 2002). The ability to more easily dispose of risk-free government bonds, which comprise the majority of the portfolio, provides additional liquidity if necessary.

The Company's common stocks and some fixed income securities are considered to be in support of shareholder capital and are therefore managed from a longer term perspective. Emphasis is on quality and capital appreciation for stocks and on quality and higher yields for bonds. The Company does not generally invest in real estate and now holds none, other than its own head office property in Toronto of which some space is leased to others.

The Company has maintained capital throughout the year well in excess of the requirements of the Insurance Companies Act and regulations. The federal regulator has established a supervisory minimum to provide a safety buffer above the legally required minimum. At the beginning of 2002, the Company had two times the excess capital required under the regulator's supervisory minimum. During 2002, the Company's excess capital decreased, due to diminished common stock values (investments are measured at market based values in the solvency test) and due to increased leverage (premium volume to capital) to 150% of the supervisory minimum. At the end of 2002, the Company's excess capital position is relatively strong, compared to competitors, and is sufficient for supporting planned growth in 2003. Management regularly monitors its capital, considering potential threats to capital from claims development, declines in investment values and operating leverage (premium growth). The federal regulator is replacing the existing capital test with a new one effective January 1, 2003, which introduces more company specific risk discrimination for the risk profile of each company's investments, other assets and types of claims liabilities. The Company's results are even better under the new test versus the existing test.

Report on General Insurance Operations (cont'd)

Mr. George L. Cooke

Outlook

The following expectations of management have been built into the Company's 2003 Business Plan. Globally and in Canada, capital problems will continue in 2003, prolonging the hard market, but with a risk of failures or distress mergers for those not well capitalized. Industry underwriting results will remain substandard, but will improve, driven by continued rate increases, reduced volume (to manage leverage downward) and continued underwriting discipline. Net earnings will remain low due to a low investment return. Competitors with sufficient capital, established underwriting discipline, experienced and adequate staff and an opportunistic acumen will improve earnings and encounter opportunities to gain market share at reasonable cost. The Company expects to achieve its 2003 plan of further improvement in underwriting results through rate increases and policy count growth, similar to 2002, for an underwriting improvement in excess of declining investment income. In so doing, management is monitoring for opportunities to grow market share with profitable business that meets our disciplined underwriting requirements.

Management's Discussion and Analysis
Report on Life Insurance Operations
Mr. Douglas G. Hogeboom

On January 1, 2002 The Empire Life Insurance Company amalgamated with its wholly owned subsidiary, Concordia Life Insurance Company ("Concordia") to form one company, The Empire Life Insurance Company ("Empire"). Under the Empire Financial Group name, Empire provides a broad range of life insurance and investment products, employee benefit plans, and financial services to meet the needs of individuals, professionals, and businesses through a network of Independent Financial Advisors ("IFA"), Managing General Agents ("MGA"), and Employee Benefit brokers and representatives.

Overview

Empire reported shareholders' net income of $14.6 million for 2002 compared to $37.2 million for 2001. Net income from Empire's four product lines was down from 2001 as a result of higher new business strain from increased sales in the Individual Insurance product line, increased expenses from several one-time items (the writedown of goodwill/intangible assets, an early retirement program and restructuring costs from the consolidation of head office operations) and the negative impact from declining stock markets. New business strain occurs when the provision for adverse deviation included in the actuarial reserves exceeds the profit margin included in the product pricing. Capital and Surplus earnings were lower than 2001 as a result of the continuing decline in domestic and world stock markets. The net contribution to E-L Financial's earnings, after adjustment for minority interests, was $11.6 million ($29.6 million for 2001). Empire's consolidated risk based capital ratio, as measured by Minimum Continuing Capital and Surplus Requirements, continued to be very strong and well above minimum requirements.

Total assets under management declined 2.5% in 2002 as the reduction in segregated fund assets, due mainly to declining stock markets, more than offset the asset growth in life insurance product lines.

The Summary of Life Insurance Operations on page 39 of this Report provides an overview of results for the five-year period from 1998 to 2002. The analysis and discussion which follow, focus on the 2002 and comparative 2001 results for each of the major lines of business.

	(thousands)	
	2002	2001
Net income:		
Segregated Funds	**$ 4,795**	$ 4,990
Investment Products	**986**	(4,327)
Employee Benefits	**5,360**	3,105
Individual Insurance	**(17,869)**	3,169
Capital & Surplus	**19,570**	21,028
Net income from Canadian operations	**12,842**	27,965
Net income from subsidiary (net of minority interest)	**58**	370
Net income	**12,900**	28,335
Policyholders' portion of income	**(1,723)**	(8,882)
Minority shareholders' portion of income	**2,977**	7,576
Net profit contribution to E-L Financial	**$ 11,646**	$ 29,641

Report on Life Insurance Operations (cont'd)

Mr. Douglas G. Hogeboom

Segregated funds

Consistent with the level of decline in the fund industry's assets, the assets in Empire's Segregated Funds decreased over 8% in the year. This decrease was primarily as a result of market value depreciation, but slightly negative net sales during the year also contributed to the decline. Our value oriented investment strategy continued to maintain our competitive position as relative investment performance continued to be above average amidst declining stock markets.

Net income was slightly below the level this product line achieved in 2001. The decline in stock markets resulted in a reduction in the average funds under management and a consequent reduction in management fees.

	(thousands) 2002	2001
Fee and other income	$ 38,440	$ 39,547
Benefits and expenses	30,535	30,847
Income and other taxes	3,110	3,710
Net income after tax	$ 4,795	$ 4,990
Assets under management	$ 1,702,257	$ 1,860,730

Investment products

Assets in this line of business increased slightly during 2002. New sales were up significantly over 2001 as consumer preference shifted from mutual and segregated funds to products with a guaranteed rate of return.

This product line's net income showed a significant improvement over the loss incurred in 2001. Although annuitant mortality experience remained unfavourable during the year, net income in 2001 also included the impact of significant reserve strengthening to reflect adverse mortality experience on the annuity products written at Concordia.

	(thousands) 2002	2001
Annuity premiums	$ 103,835	$ 70,863
Fee income	639	519
Investment and other income	64,138	69,879
	168,612	141,261
Benefits and expenses	172,233	154,169
Income and other taxes	(4,607)	(8,581)
Net income (loss) after tax	$ 986	$ (4,327)
Assets under management	$ 927,946	$ 924,973

Employee benefits

The Employee Benefits product line's continued focus, on balancing growth and profit, generated record net income during 2002. While sales fell 3% below last year's record level, continued strong sales and persistency enabled the product line's premium income to continue to grow at a significant rate. Premium growth and effective expense management led to lower unit expenses and this combined with improved claims ratios led to record earnings.

Technology development, ever important in maintaining this product line's strong competitive position in the delivery of client services, continued with the implementation of a producer self service tool, the first of several planned web-based, client-focused business applications.

	(thousands) 2002	2001
Premium income	**$ 145,232**	$ 120,600
Investment and other income	**5,691**	4,870
	150,923	125,470
Benefits and expenses	**139,154**	117,740
Income, premium and other taxes	**6,409**	4,625
Net income after tax	**$ 5,360**	$ 3,105
Annualized premium sales	**$ 28,691**	$ 29,652

Individual insurance

The year 2002 marked the first full year that Empire's entire product portfolio was available to both the IFA network and the MGA network. As a result of this and several product enhancements, sales continued the positive trend witnessed in the fourth quarter of 2001, showing an increase of 65% over 2001 levels. For the first time in Empire's history Individual Insurance sales from the MGA network surpassed those of the IFA network.

Earnings in 2002 were reduced by the increased new business strain resulting from this dramatic sales increase, as well as by increased expenses and the negative impact that declining stock markets had on earnings on universal life products. The increase in expenses was largely attributable to one-time expenses, including a writedown of intangible assets and the restructuring costs associated with consolidating the product lines' processing functions that were formerly performed in three distinct locations. In addition, 2002 earnings were reduced by a net strengthening in policy liabilities as a result of the annual revision of actuarial assumptions. This is in contrast to 2001, when income was bolstered by a net release of policy liabilities.

Report on Life Insurance Operations (cont'd)

Mr. Douglas G. Hogeboom

Individual insurance (continued)

	(thousands) 2002	2001
Premium income	**$ 156,642**	$ 149,863
Investment and other income	**41,582**	43,808
	198,224	193,671
Benefits and expenses	**218,502**	186,669
Income, premium and other taxes (recovery)	**(2,409)**	3,833
Net income (loss) after tax	**$ (17,869)**	$ 3,169
Annualized premium sales	**$ 26,917**	$ 16,301

Capital and surplus

In addition to the four major lines of business, Empire maintains distinct accounts for the investment income attributable to Policyholders' Surplus and to Shareholders' Capital and Surplus. The 2002 contribution to net income from the Policyholders' Surplus account and the Shareholders' Capital and Surplus account was $19.6 million compared to $21.0 million in 2001. Declines in world stock markets continued to suppress investment income in these accounts during 2002 and led to lower earnings than in 2001.

Risks

Empire faces a broad range of risks and uncertainties in its day to day operations. Being a financial institution, a number of these risks are centred upon Empire's investments and include credit, interest rate, liquidity and foreign exchange risks. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Empire has an asset-liability matching committee, which reports regularly to the Investment Committee of the Board and monitors the matched position of investments to the liabilities within the various segments of Empire's operations. The matching process ensures that assets supporting policy liabilities closely match the timing and amount of policy obligations as well as provide the appropriate amount of liquidity. This process addresses the management of interest rate risk, which is the risk of economic losses due to the need to reinvest or divest during periods of changing interest rates, and liquidity risk. The matching process also monitors and aligns the foreign currency position of the assets with the liabilities within the various segments thus managing the risk emanating from changes in foreign exchange rates.

Other risks relating to Empire's operations are described further in the notes to the financial statements.

Outlook

While the pace has slowed in recent years, industry consolidation continued in the past year with Sun Life taking over Clarica, and both Manulife and Great West Life bidding for Canada Life. The continued trend to fewer players coupled with ongoing pressure for reasonable rates of return on investments from each product line has, in the past, led to higher prices and profit margins in the employee benefits marketplace. This was again demonstrated in Employee Benefits results in 2002, as Empire was able to simultaneously improve market share and rate of return. Looking forward, as consolidation activity continues to slow down, profit margins should remain level or decline as companies try to take advantage of past growth and offer economies of scale to the marketplace. Empire's focus on balanced growth and profit, along with significantly improved unit expenses and the building of strong relationships with our producing partners, should continue to enhance our strong presence in the small group marketplace while simultaneously achieving target returns.

Reinsurance rates in the Canadian life insurance market remain highly competitive and continue to put downward pressure on the price levels of individual insurance products. Unless a company opts for increased levels of reinsurance, these price levels create significant new business strain as witnessed by Empire's 2002 results. Because the long term returns of this product line are consistent with target levels, Empire intends to continue to take advantage of the sales growth resulting from the strong relationships that have been built with members of both the IFA and MGA distribution networks while monitoring the use of reinsurance to temper the negative impact that new business strain has on short-term earnings.

On the wealth management side of our business, unstable, declining stock markets caused consumers to shift their preference towards guaranteed interest products during 2002, and this preference is expected to continue into 2003. Empire's products are positioned to take advantage of shifts in either direction, with products offering both segregated funds and guaranteed interest vehicles and the ability to transfer between them. Looking forward, Empire is expecting to grow its market share in the fund business through the addition of several new actively managed funds in 2003 and the addition of capabilities to accept electronic transactions. This "electronic link" should enable Empire to build synergies with those members of the MGA distribution network with whom it already has relationships on the life insurance side of the house, but who require electronic capabilities to place fund business.

Empire continues to maintain a strong balance sheet and capital position. Capital is well in excess of minimum regulatory requirements as measured by the Minimum Continuing Capital and Surplus Requirements. Empire's "A" (Excellent) rating from A.M. Best Company provides third party confirmation of this strength. With Empire's strong capital base we are well positioned to capitalize on the opportunities which exist in today's market while maintaining Empire's enviable earnings history.

Throughout the past year Empire has been building and expanding on the previously established relationships with the MGA network, and this together with the continuation of existing relationships with the IFA network has meant broadened distribution reach. Empire remains committed to the distribution of our products through qualified intermediaries who can provide the counsel consumers need to fulfil their financial goals. It is our intention to continually enhance the product, technology and service support that these advisors need to satisfy their clients. We believe that the strengthening of our relationship with our producing partners and a focus on developing new relationships with quality producers is the key element in achieving our growth goals.

Management Report

The accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include amounts that are based on judgements, which are applied consistently and are considered appropriate in the circumstances.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

The Company and its subsidiaries maintain systems of internal control which are designed to provide reasonable assurance that assets are safeguarded, that transactions are properly recorded and that financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee and the Audit Committees of its subsidiaries. These Audit Committees meet periodically with management and with the internal and external auditors to discuss the scope and results of audit examinations with respect to internal controls and financial reporting of the Company and its subsidiaries. The Audit Committees also meet periodically with the appointed actuaries.

The actuaries are appointed by the boards of directors of the insurance subsidiaries to conduct an annual valuation of policy liabilities, in accordance with accepted actuarial practices, and to report on whether the valuations are appropriate and whether their results are fairly presented in the subsidiaries' financial statements. The appointed actuaries use the work of the external auditors in verifying data used for valuation purposes.

Deloitte & Touche LLP has been appointed external auditors. It is their responsibility to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial position and results of operations as shown in the annual financial statements. In carrying out their audit, the external auditors also make use of the work of the actuaries and their reports on policy liabilities. The external auditors have full and free access to, and meet periodically with, the Audit Committees to discuss their audits. The Auditors' Report outlines the scope of their examination and their opinion.

The Honourable Henry N.R. Jackman
Chairman and President

Mark M. Taylor
Vice-President, Finance and Secretary

Consolidated Balance Sheets
(thousands of dollars)

As at December 31,

Assets	**2002**	2001 (Note 2)
Portfolio investments, at market value (Note 3)	**$ 589,792**	$ 615,067
Investments - insurance operations (Note 4)	**3,383,939**	3,207,849
Cash and cash equivalents	**167,927**	169,580
Premiums receivable	**199,992**	154,813
Accrued investment income	**25,800**	26,200
Deferred acquisition expenses	**80,157**	64,045
Reinsurance recoverable (Note 5)	**150,087**	146,564
Future income taxes (Note 11)	**43,998**	42,306
Other assets (Note 7)	**89,245**	92,984
	$ 4,730,937	$ 4,519,408
Segregated funds assets	**$ 1,702,257**	$ 1,860,730

Auditors' Report

To the Shareholders of
E-L Financial Corporation Limited

We have audited the consolidated balance sheets of E-L Financial Corporation Limited as at December 31, 2002 and 2001 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Toronto, Canada
February 26, 2003

Consolidated Balance Sheets (continued)
(thousands of dollars)

	As at December 31,	
Liabilities	**2002**	2001 (Note 2)
Policy liabilities (Note 5)	**$ 3,063,182**	$ 2,850,066
Policyholders' funds on deposit	**25,809**	26,329
Income and other taxes payable	**6,256**	2,327
Provision for profits to policyholders	**11,514**	11,352
Deferred realized net gains on investments (Note 6)	**132,636**	164,389
Other liabilities	**97,975**	82,949
Future income taxes on unrealized appreciation of portfolio investments (Notes 3 and 11)	**18,089**	19,750
	3,355,461	3,157,162
Minority interest	**73,415**	77,487
Participating policyholders' interest	**34,676**	36,399
	108,091	113,886
Shareholders' Equity		
Capital stock (Note 9)	**7,892**	7,892
Retained earnings (Note 9)	**962,510**	912,918
Unrealized appreciation of portfolio investments (Note 3)	**296,983**	327,550
	1,267,385	1,248,360
	$ 4,730,937	$ 4,519,408
Segregated funds liabilities	**$ 1,702,257**	$ 1,860,730

Approved by the Board

The Honourable Henry N.R. Jackman, Director

James W. McCutcheon, Director

Consolidated Statements of Income
(thousands of dollars except per share amounts)

	Years Ended December 31,	
	2002	2001 (Note 2)
Revenue		
Insurance premiums	**$ 1,003,460**	$ 895,963
Annuity premiums	**103,835**	70,863
Investment and other income	**228,858**	246,372
Amortization of realized investment gains	**20,153**	25,501
Amortization of unrealized investment gains	**5,649**	8,349
Gain on sale of investments	**18,208**	59,643
	1,380,163	1,306,691
Expenses		
Claims and policy benefits	**919,681**	832,780
Commissions	**189,418**	155,934
Operating	**149,952**	137,009
	1,259,051	1,125,723
Income Before the Undernoted Items	**121,112**	180,968
Taxes		
Income (Note 11)	**23,670**	64,369
Premium	**30,290**	26,495
Investment and capital	**3,401**	3,060
	57,361	93,924
Income Before Policyholders' and Minority Shareholders' Interest	**63,751**	87,044
Policyholders' and Minority Shareholders' Portion of Income	**12,239**	9,863
Net Income (Note 12)	**$ 51,512**	$ 77,181
Earnings per Share	**$ 13.41**	$ 20.10

Consolidated Statements of Retained Earnings
(thousands of dollars)

	Years Ended December 31, 2002	2001 (Note 2)
Retained earnings, beginning of year	**$ 912,918**	$ 837,657
Net income	**51,512**	77,181
	964,430	914,838
Dividends (Note 9)	**(1,920)**	(1,920)
Retained earnings, end of year	**$ 962,510**	$ 912,918

Consolidated Statements of Cash Flows
(thousands of dollars)

	Years Ended December 31, 2002	2001 (Note 2)
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**$ 51,512**	$ 77,181
Items not affecting cash resources:		
Increase in net policy liabilities	**209,593**	54,298
Gain on sale of investments	**(18,208)**	(59,643)
Future income taxes	**(1,692)**	29,431
Other items	**(58,191)**	(86,229)
Policyholders' dividends	**(10,972)**	(10,955)
	172,042	4,083
Net purchases of short-term investments - insurance operations	**(24,836)**	(44,053)
Net change in other assets and liabilities	**(50,640)**	(6,091)
	96,566	(46,061)
Financing		
Dividends to shareholders	**(1,920)**	(1,920)
Investing		
Purchases of investments	**(1,067,867)**	(1,313,618)
Proceeds from sale of investments	**962,397**	1,356,398
Net sales (purchases) of short-term investments	**10,645**	(26,153)
Net purchases of other assets	**(4,724)**	(9,085)
	(99,549)	7,542
Decrease in cash and cash equivalents	**(4,903)**	(40,439)
Cash and cash equivalents, beginning of year	**148,177**	188,616
Cash and cash equivalents, end of year (Note 18)	**$ 143,274**	$ 148,177

1. Nature of the business

E-L Financial Corporation Limited (the "Company") is an investment holding company.

The Company has two operating insurance subsidiaries, The Dominion of Canada General Insurance Company ("Dominion") and The Empire Life Insurance Company ("Empire"). Dominion underwrites property and casualty insurance ("general insurance") while Empire underwrites life and health insurance policies and annuity contracts (collectively "life insurance") for individuals and groups. Both subsidiaries are registered under the Insurance Companies Act and operate in most provinces and territories across Canada.

In addition, the Company manages a portfolio of publicly traded fixed income and equity securities both directly and indirectly through a number of closed-end investment fund corporations and other investment companies ("portfolio investments").

2. Summary of significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of Dominion and 1127334 Ontario Inc. (both wholly-owned); E-L Financial Services Limited (81.0% owned) and its 98.3% owned subsidiary company, Empire (including Empire's 51% owned subsidiary company, GRENEL Financial Corporation ("Grenel")).

On January 1, 2002, Empire amalgamated with its wholly-owned subsidiary, Concordia Life Insurance Company ("Concordia") and continued under the name "The Empire Life Insurance Company," and Dominion amalgamated with its wholly-owned subsidiary, Chieftain Insurance Company ("Chieftain") and continued under the name "The Dominion of Canada General Insurance Company." Grenel was dissolved on June 26, 2002. The 2001 comparatives in the accompanying consolidated financial statements incorporate the results of Empire, Grenel, Concordia, Dominion and Chieftain.

General accounting policies

Short-term investments

Short-term investments consist of treasury bills, commercial paper, guaranteed investment certificates and bankers' acceptances held for investment purposes. These investments are carried at cost, which approximates fair value.

Dividends and interest

Dividend income is recognized on the ex-dividend date. Interest income is recognized as it is earned.

Employee future benefit plans

The Company accrues its obligations for its employee benefit plans, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and using management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The transition asset arising on the adoption of the new accounting rules is being amortized over the average remaining service period of active employees. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Capital assets

Capital assets (furniture, equipment and computer software) are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the useful life of the capital assets, which varies from two to five years. Leasehold improvements are amortized over the related remaining lease term. The general insurance operation amortizes its building on a five per cent declining balance basis.

Income taxes

Future income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the financial statements or income tax returns. Future income taxes are provided for using the asset and liability method. Under the asset and liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carry-forward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date of the enactment or substantive enactment.

Portfolio investments

The significant accounting policies applied to the Company's portfolio investments are as follows:

Investments

Portfolio investments are carried at market value. For publicly traded securities, market value is determined based on closing market quotations. Equities traded over-the-counter are priced at the latest market price quoted by the major dealers in such securities. Securities which are not publicly traded represent shares in certain investment companies, for which market value is determined based on the market values of the underlying net assets. The investment portfolios held by these companies are comprised of publicly traded securities.

Realized gains and losses on sale of investments, measured as the difference between average cost and sales proceeds, are recognized in the income statement on the date of disposal. Unrealized gains and losses which arise through changes in the market value of portfolio investments, net of the relevant future income taxes, are recorded through Unrealized appreciation of portfolio investments which is a separate component of Shareholders' equity.

Insurance operations

The accounting policies applied in the general and life insurance industries differ in various respects. The differences mainly affect investments and policy liabilities as explained below.

Accounting policy change

The general insurance operation has changed its accounting policy for premium finance fee income included in Investment and other income. Commencing in 2002, this income is recorded as earned on a straight-line basis over the term of the related policies whereas previously it was recorded as earned at the time the policy was written. This change in accounting policy has been applied retroactively with restatement of the 2001 comparative figures. The retroactive impact on the financial statements, as at January 1, 2001 is a decrease of $2,315 in Retained earnings, an increase in Future income taxes of $1,682 and an increase in unearned income, which is included in Other liabilities, of $3,997. The impact on the 2001 consolidated statement of income is not material. In the current year, Investment and other income has been reduced (and Other liabilities increased) by $1,096 and Future income taxes has decreased by $1,680 as a result of this change in accounting policy.

Investments

Investments in bonds and debentures are carried at amortized cost and mortgages are carried at amortized cost less repayments. Investments in common and preferred stocks, which include fund units, real estate and commercial loans are carried at cost except as described below.

For the general insurance operation, gains and losses on the sale of investments are recognized on the date of disposal. Investments with an impairment in value that is other than temporary are written down to their estimated realizable value.

For the life insurance operation, unrealized gains and losses on common and preferred stocks and real estate are amortized to income at annual rates of 15% and 10%, respectively. The accumulated unrealized gains and losses amortized to income are included in the balance sheet with the related investments and are separately disclosed in Note 4. Realized gains and losses on stocks are deferred and amortized to income at a 15% annual rate. Realized gains and losses on the sale of bonds and mortgages are deferred and amortized to income over the lesser of the period to maturity or twenty years from the date of sale. The unamortized realized gains and losses for bonds, mortgages and common and preferred stocks are included in the consolidated balance sheet as Deferred realized net gains on investments.

Loans on policies are carried at their unpaid balance and are either fully secured by the cash surrender values of the life insurance policies on which the respective loans are made or secured by the assignment of a life insurance policy to the life insurance operation.

The life insurance operation also uses certain common share and bond investments for hedging its exposure to products it offers which have a savings component that varies with a variety of indices and currencies. These investments are accounted for on a mark to market basis.

Derivatives

In the ordinary course of business, the life insurance operation uses futures contracts, call options and foreign currency forward contracts to match policy obligations that vary with a variety of indices or foreign currencies. These financial instruments are marked to market and the unrealized gains and losses are recognized in income in the period.

The life insurance operation also uses futures contracts to partially match Shareholders' and Policyholders' equity. Realized and unrealized gains or losses on futures used for this purpose are accounted for in the same manner as common and preferred stocks.

Deferred acquisition expenses

In the life insurance operation, distribution costs of segregated funds having a deferred sales charge, are deferred and amortized over the term of the related deposits or the applicable period of such sales charges, as appropriate. In accordance with new accounting and actuarial standards for the life insurance operation, these deferred costs now form part of Policy liabilities on the consolidated balance sheet and the related amortization forms part of Claims and policy benefits on the consolidated statement of income.

Deferred acquisition expenses for the general insurance operation, comprised primarily of commissions and premium taxes, are amortized on the same basis as the related premiums are earned. The amount deferred is limited to the amount recoverable.

Policy liabilities

Policy liabilities are determined using accepted actuarial practices in accordance with the standards of the Canadian Institute of Actuaries. Annually, each insurance subsidiary obtains an actuarial opinion on the appropriateness of the policy liability amounts recorded in its financial statements. These opinions also incorporate related amounts for reinsurance recoverable and deferred acquisition expenses. The bases used for estimating each of general and life insurance policy liabilities are described below.

General insurance policy liabilities include provisions for unearned premiums and unpaid and unreported claims. The provision for unpaid and unreported claims provides for all costs of investigation and settlement of insurance losses that have occurred prior to the year end, net of anticipated salvage and subrogation. Estimates must be made of the ultimate costs for known or reported claims as well as an estimate for those claims incurred but not yet reported. Many assumptions underlie these estimates such as claims frequency and severity, claims payment trends, inflation and interest rates, as well as potential changes in legislation and in the interpretation of liability by the courts.These estimates do not recognize the time value of money except for policy liabilities for automobile accident benefit payments.

Life insurance policy liabilities represent the estimated amount which, together with estimated future premiums and investment income, will be sufficient to fund future benefits, dividends, expenses and taxes on policies in force. The liabilities incorporate management's best estimate assumptions regarding such factors as mortality and morbidity, investment returns, rates of policy terminations, level of operating expenses, inflation, policyholder dividends and taxes.

All changes in policy liability estimates are recorded in Claims and policy benefits in the consolidated statement of income in the period in which they occur.

Reinsurance ceded

Reinsurance is ceded to other insurers in order to limit exposure to significant losses. Reinsurance ceded does not relieve the insurance operation of its primary liability. Ceded reinsurance premiums and reinsurance recoveries on claims and policy benefits incurred are recorded as a reduction of the respective income and expense amounts. Estimates of amounts recoverable from reinsurers in respect of general insurance policy liabilities and unearned premiums are recorded as Reinsurance recoverable on the consolidated balance sheet.

Participating policyholders' interest

Certain life, disability and annuity policies are defined as participating policies by contractual provisions, and are eligible for periodic dividends. The distribution of dividends is made from the earnings attributed to the performance of the participating business.

Segregated funds

The segregated fund asset and liability amounts on the consolidated balance sheet are in respect of investment funds held on behalf of insurance policyholders.

The consolidated statement of income includes fee income earned from the segregated fund business.

Investments held in the segregated funds are carried at market values.

Insurance premiums

In the general insurance operation, premiums are earned on a straight-line basis over the term of the related policies. Premium finance fee income, included in Investment and other income, is earned on a straight line basis over the term of the related policies.

In the life insurance operation, gross premiums are generally recognized as revenue when due.

(all dollar figures expressed in thousands)

3. Portfolio investments

	2002		2001	
	Cost	**Market Value**	Cost	Market Value
Short-term investments	**$ 46,607**	**$ 46,607**	$ 57,251	$ 57,251
Bonds and debentures	**128,301**	**132,181**	116,720	118,450
Common and preferred stocks	**99,812**	**411,004**	93,796	439,366
	$ 274,720	**$ 589,792**	$ 267,767	$ 615,067

Market values for bonds and debentures are based on publicly quoted prices. Market values for publicly traded equity securities are based on closing market quotations. Where equity securities are not publicly traded, market values are determined based on the market value of the net assets underlying those entities. Realization on the market value appreciation of equity investments held is dependent in part on the timing of distribution of cash dividends by these entities or the ultimate disposition of the Company's interest in these entities.

The Company's investments in common and preferred stock are primarily held in entities that can be significantly influenced by a party that can significantly influence the Company. Included in the consolidated statement of income are cash dividends from these companies amounting to $16,622 (2001 - $31,047).

The Company's bond and debenture portfolio is comprised of 62% (2001 - 68%) Canadian federal and provincial bonds. Bond and debenture investments have the following maturity profile: 15% (2001 - 0%) less than one year, 41% (2001 - 52%) between one and five years, and 44% (2001 - 48%) over five years. The effective interest rate on this portfolio is 5.4% (2001 - 5.6%) and the portfolio duration is 5.8 years (2001 - 6.0 years). The net change in Unrealized appreciation of portfolio investments is comprised of the following:

	2002	2001
Unrealized appreciation of portfolio investments, beginning of year	**$ 327,550**	$ 291,827
Increase (decrease) in market value of portfolio investments	**(24,665)**	51,708
Realized gains during the year	**(7,563)**	(19,062)
Impact of change in substantively enacted future tax rates	**—**	3,792
Increase in provision for taxes on unrealized appreciation	**(2,199)**	(10,339)
Impact of non-cash dividends received on provision for taxes on unrealized appreciation	**3,860**	9,624
Unrealized appreciation of portfolio investments, end of year	**$ 296,983**	$ 327,550

The impact of non-cash dividends reflected in the above table is based on the expected tax rate which would apply to the ultimate disposition of the portfolio investments, which is lower than the tax rate paid on non-cash dividends received in the year.

(all dollar figures expressed in thousands)

4. Investments - insurance operations

The carrying values and market values of investments are as follows:

	2002		2001	
	Carrying Value	Market Value	Carrying Value	Market Value
Short-term investments	$ 119,422	$ 119,422	$ 94,586	$ 94,586
Bonds and debentures	1,840,776	2,034,400	1,714,393	1,816,852
Mortgages and commercial loans	242,967	252,957	259,416	267,683
Common and preferred stocks	939,362	949,139	890,919	967,515
Real estate	7,776	12,745	7,560	10,230
Loans on policies	205,175	205,175	205,244	205,244
Amortized unrealized gains on investments	28,461	—	35,731	—
	3,383,939	3,573,838	3,207,849	3,362,110
Less: matched securities	(1,898,027)	(2,076,028)	(1,824,970)	(1,920,332)
	$ 1,485,912	$ 1,497,810	$1,382,879	$1,441,778

The carrying values reported in the above table include investments used for hedging comprised of common shares valued at market of $43,605 (2001 - $17,328) and bonds valued at market of $4,408 (2001 - $2,482).

Market values for bonds and debentures and common and preferred stocks are based on publicly quoted prices. Due to the nature of loans on policies, market value is assumed to be equal to carrying value. Market value for mortgages and commercial loans reflects a revaluation of the underlying cash flows based on current market interest rates. Market values for each real estate property are established periodically by qualified appraisers. Market values, which are shown without providing for any sale transaction costs, represent an approximate measure of fair value.

Matched securities include certain investments acquired to match life insurance policy liabilities by quality, yield and maturity. Fluctuations in the market values of these matched securities usually will not have any net impact upon future income.

The remaining investments are held to maintain sufficient liquidity to pay general insurance claims as they come due and to provide an appropriate return on policyholders' and shareholders' equity, a significant portion of which must be maintained to satisfy regulatory minimum capital requirements.

Canadian federal and provincial bonds comprise 63% (2001 - 68%) of the general insurance operations bonds and debentures. These bonds and debentures have the following maturity profile: 6% (2001 - 12%) within one year, 39% (2001 - 40%) between one and five years and 55% (2001 - 48%) over five years. The average effective interest rate of these bonds and debentures is 6.1% (2001 - 6.3%) and the portfolio duration is 5.2 years (2001 - 4.6 years).

Allowances for impaired investments amounted to $5,964 (2001 - $6,614) on impaired investments of $48,183 (2001 - $58,230).

The shareholders' proportion of any gains or losses to be realized on life insurance operation investments will be reduced by amounts attributed or allocated to policyholders' and minority interests.

(all dollar figures expressed in thousands)

5. Policy liabilities

Policy liabilities are comprised of:

	2002			2001		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
General insurance unearned premiums provision	**$ 406,025**	**$ 5,017**	**$ 401,008**	$ 324,034	$ 3,678	$ 320,356
General insurance unpaid and unreported claims provision	**722,011**	**53,231**	**668,780**	681,936	62,253	619,683
Life insurance benefits and expense provision	**1,935,146**	**91,839**	**1,843,307**	1,844,096	80,633	1,763,463
	$3,063,182	**$150,087**	**$2,913,095**	$2,850,066	$146,564	$2,703,502

General insurance unearned premiums provision represents the portion of premiums that relate to the unexpired term of underlying insurance policies. These amounts are determined to be sufficient to fund anticipated claims and expenses.

The change in net policy liabilities from the prior year, excluding the general insurance unearned premium provision, is outlined below:

	2002	2001
General insurance		
Balance, beginning of year	**$ 619,683**	$ 585,426
Prior year claims development	**7,153**	(3,977)
Current year claims incurred	**505,459**	476,817
Claims payments	**(463,515)**	(438,583)
Balance, end of year	**$ 668,780**	$ 619,683
Life insurance		
Balance, beginning of year	**$ 1,763,463**	$ 1,760,819
Changes in valuation assumptions	**4,300**	(900)
Normal changes - new business	**132,698**	112,309
- in-force business	**(57,154)**	(108,765)
Balance, end of year	**$ 1,843,307**	$ 1,763,463

In the absence of an active market for the sale of claims liabilities, it is difficult to determine the fair value of the general insurance unpaid and unreported claims provision and reinsurance recoverable. One appropriate representation of fair value is the discounted value as determined by accepted actuarial practice. As at December 31, 2002, the actuarially discounted value of unpaid and unreported claims is $717,000 (2001 - $669,000) and of reinsurance recoverable is $50,000 (2001 - $57,000).

(all dollar figures expressed in thousands)

The general insurance unpaid and unreported claims provision does not include amounts for claims where obligations to claimants have been settled by the purchase of annuities from life insurance companies. The general insurance operation guarantees the life insurers' obligations under these annuities which are estimated to be $200,000 (2001 - $196,000) based on the net present value of the projected future cash flows of these guarantees in 2002. The Company considers the credit risk of such guarantees to be insignificant.

Note 4 shows the relationship between fair values and carrying values of matched assets relating to the life insurance operation. The Company has estimated that any increase or decrease in the fair value of the matched asset portfolio would result in a corresponding increase or decrease in the fair value of the related policy liabilities of approximately the same amount.

The provisions described above are estimates and accordingly, the actual amounts that are ultimately incurred will differ. The likelihood of significant differences from amounts currently provided increases with the length of the time until the settlement amounts of claims and the timing of other benefits are established. A significant proportion of the Company's policy liabilities are long-term. Management of the Company is satisfied that current estimates constitute a prudent assessment of these liabilities.

6. Deferred realized net gains on investments

Deferred realized net gains, which arise from the life insurance operation, include approximately $69,000 (2001 - $72,000) of net gains related to bonds and mortgages that are matched to policy liabilities. When amortized, the gains on matched investments will not result in any net increase in future income.

7. Other assets

Other assets are comprised of the following:

	2002	2001
Due from Facility Association	**$ 32,306**	$ 24,237
Goodwill (net of accumulated amortization of $3,150 in 2001)	**—**	3,068
Capital assets, at cost (net of accumulated amortization of $50,110 (2001 - $49,862))	**20,165**	21,770
Due from reinsurance companies	**10,892**	10,622
Pension asset (Note 13)	**9,570**	13,182
Other	**16,312**	20,105
	$ 89,245	$ 92,984

Facility Association is an insurance plan, operated on behalf of the automobile insurance industry, that provides coverage to higher risk automobile drivers. Results are pooled and shared among automobile insurers.

Amounts previously recorded as goodwill were comprised of intangible assets related to policyholder contracts acquired in a business combination completed in 1997. In 2002, in the course of applying new accounting standards for goodwill and other intangibles, the Company determined that the value originally ascribed to the intangible assets had fully depreciated over the period since acquisition and that the balance of $3,068 should be written off and charged to operating expenses. The charge to net income for 2001 was comprised of goodwill amortization which lowered consolidated net income by $439.

(all dollar figures expressed in thousands)

8. Reinsurance

In the normal course of business, the insurance subsidiaries cede reinsurance to other insurers in order to limit exposure to significant losses. The general insurance operation's exposure to claims was limited as follows: $3,000 for an automobile claim; $750 for personal and commercial property claims; $1,250 for a casualty claim; and $2,500 for a surety claim. The general insurance operation also has a catastrophe reinsurance arrangement providing coverage up to $400,000, in the event of a series of claims arising out of a single occurrence, under which the general insurance operation is responsible for the first $15,000 plus 2.5% of the first $60,000 of claims exceeding that retention level. The life insurance operation's exposure to claims is limited to $500 on any one life. These reinsurance arrangements are reflected in the consolidated statement of income as a reduction of $59,712 (2001 - $48,817) in insurance premiums.

9. Shareholders' equity

Capital stock

		2002	2001
Authorized:			
4,402,733	preference shares, issuable in series		
10,597,267	common shares		
Issued:			
264	Series A convertible preference shares	$ 1	$ 1
3,840,248	common shares	7,891	7,891
		$ 7,892	$ 7,892

The Series A convertible preference shares are convertible in perpetuity into common shares on a share for share basis and are entitled, when and if declared, to a non-cumulative dividend of $0.50 per share per annum.

Both the Series A convertible preference and common shares received dividends of $0.50 per share in 2002 and 2001.

Shareholders' entitlement to $3,069 (2001 - $3,221) of shareholders' equity is contingent upon future payment of dividends to participating life insurance policyholders.

10. Capital adequacy of insurance subsidiaries

The Company's insurance subsidiaries are required to maintain capital and surplus in excess of minimums established through regulatory tests applied by the Office of the Superintendent of Financial Institutions. Each subsidiary has capital and surplus in excess of the required minimum levels.

(all dollar figures expressed in thousands)

11. Income taxes

The combined statutory Canadian federal and provincial tax rate applicable to the Company and its subsidiaries in 2002 approximates 38.9% (2001 - 42.1%). Income taxes are assessed on operating income after deducting premium taxes and investment taxes. The effective tax rate varies from the combined statutory rate as follows:

	2002	2001
Income taxes at statutory rate	**$ 34,349**	$ 63,945
Variance as a result of:		
Tax-paid investment income	**(11,234)**	(1,421)
Policy dividends	**(4,279)**	(4,599)
Reductions in enacted future tax rates	**606**	4,441
Other	**4,228**	2,003
Income tax provision	**$ 23,670**	$ 64,369

The Company's income tax expense includes provisions for current and future taxes as follows:

	2002	2001
Current	**$ 25,362**	$ 34,938
Future	**(1,692)**	29,431
	$ 23,670	$ 64,369

The future income tax asset relates to the insurance operations and arises primarily due to taxes paid on the net change in market value of investments and differences in the timing of deduction of claims and policy benefit expenses for tax purposes.

Future income taxes on unrealized appreciation of portfolio investments represents the estimated tax that would ultimately be payable on realization of these gains.

During 2002, the Company and its subsidiaries paid income tax instalments totalling $39,479 (2001 - $59,831) and received income tax refunds totalling $11,452 (2001 - $6,104).

Loss carryfowards of $2,023 were available as at December 31, 2001 and were utilitized in 2002 by Dominion.

The Company also has accumulated refundable dividend tax of $27,411 (2001 - $23,238). The potential benefit of this amount has not been reflected in these financial statements.

12. Analysis of net income

Components of net income, each net of policyholders' and minority shareholders' interest, is as follows:

	2002	2001
Income excluding undernoted	**$ 27,238**	$ 37,516
Amortization of investment gains and losses	**12,658**	13,259
Gain on sale of investments	**11,616**	26,406
	$ 51,512	$ 77,181

Net income for 2002 includes $2,130 (2001 - $2,507) of amortized realized gains relating to the 1997 disposition of the Company's investment in National Trustco Inc. There remains $12,071 (2001 - $14,201) to be amortized over future years at a 15% annual rate.

(all dollar figures expressed in thousands)

13. Employee future benefit plans

Pension benefit plans include defined benefit plans available to certain employee and executive groups, as well as certain defined benefits elected to be retained on conversion of Dominion's defined benefit plan to a money purchase plan in 1994. The Company and its subsidiaries also provide for extended health care coverage and other future benefits to qualifying employees and retirees.

	Pension Benefit Plans		Other Benefit Plans	
	2002	2001	**2002**	2001
Accrued benefit obligation				
Balance, beginning of year	**$ 96,446**	$ 80,978	**$ 12,168**	$ 10,820
Current service cost	**4,078**	3,253	**997**	410
Employee contributions	**1,228**	1,185	**—**	—
Interest cost	**5,939**	5,710	**831**	754
Benefits paid	**(4,260)**	(2,989)	**(556)**	(504)
Actuarial loss (gain)	**(3,977)**	8,309	**1,581**	688
Balance, end of year	**$ 99,454**	$ 96,446	**$ 15,021**	$ 12,168
Plan assets				
Fair value, beginning of year	**$ 107,534**	$ 105,450	**$ —**	$ —
Actual return on plan asset	**(1,464)**	3,238	**—**	—
Employer contributions	**1,503**	2,401	**—**	—
Employee contributions	**1,228**	1,185	**—**	—
Transfer to fund employer contributions to employee money purchase plan	**(1,909)**	(1,751)	**—**	—
Benefits paid	**(4,260)**	(2,989)	**—**	—
Fair value, end of year	**$ 102,632**	$ 107,534	**$ —**	$ —
Funded status - plan surplus (deficit)	**$ 3,178**	$ 11,088	**$ (15,021)**	$ (12,168)
Unamortized net actuarial loss (gain)	**12,480**	8,159	**2,323**	742
Unamortized transitional obligation (asset)	**(6,364)**	(6,894)	**6,071**	6,992
Accrued benefit asset (liability)	**$ 9,294**	$ 12,353	**$ (6,627)**	$ (4,434)
Net pension expense (income)				
Current service cost	**$ 4,078**	$ 3,253	**$ 997**	$ 410
Interest cost	**5,939**	5,710	**831**	754
Expected return on plan assets	**(7,087)**	(7,824)	**—**	—
Amortization of net actuarial loss	**253**	—	**—**	—
Amortization of transitional obligation (asset)	**(530)**	(530)	**921**	687
Net benefit expense	**$ 2,653**	$ 609	**$ 2,749**	$ 1,851

(all dollar figures expressed in thousands)

The following weighted average assumptions were used in the actuarial calculations:

- Discount rate of 6.3% (2001 - 6.4%) for pension benefits and 6.5% (2001 - 6.9%) for other benefits;
- Expected long term rate of return on plan assets of 6.6% (2001 - 7.5%) for pension benefits;
- Salary escalation of 4.6% (2001 - 5.0%) for pension benefits;
- Health care cost escalation of 4.3% (2001 - 4.3%) for other benefits.

Included in the previous figures are defined benefit obligations in excess of plan assets as of December 31 as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2002	2001	**2002**	2001
Accrued pension obligation	**$ 12,158**	$ 7,568	**$ 15,021**	$ 12,168
Plan assets at fair value	**$ 7,727**	$ 7,157	**$ —**	$ —

The liability portion of the net accrued pension benefit asset is included in Other liabilities. The Company and its subsidiaries also maintain money purchase staff pension plans available to employees. Pension expense relating to these plans was $1,909 (2001 - $1,751).

14. Segmented information

In managing its investments, the Company distinguishes between its portfolio investments, its investment in general insurance (Dominion) and its investment in life insurance (Empire).

	2002			
	Portfolio Investments	Dominion	Empire	Total
Premiums	$ —	$ 701,586	$ 405,709	$ 1,107,295
Amortization of realized and unrealized investment gains	—	—	25,802	25,802
Gain on sale of investments	7,563	10,645	—	18,208
Investment and other income	19,497	58,057	151,304	228,858
Taxes	11,387	37,108	8,866	57,361
Policyholders' and minority shareholders' portion of income	—	—	12,239	12,239
Segment net income	13,808	26,058	11,646	51,512
Segment assets	605,873	1,596,978	2,528,086	4,730,937

(all dollar figures expressed in thousands)

	2001			
	Portfolio Investments	Dominion	Empire	Total
Premiums	$ —	$ 625,500	$ 341,326	$ 966,826
Amortization of realized and unrealized investment gains	—	—	33,850	33,850
Gain on sale of investments	19,062	40,581	—	59,643
Investment and other income	22,992	59,945	163,435	246,372
Taxes	29,111	45,323	19,490	93,924
Policyholders' and minority shareholders' portion of income	—	—	9,863	9,863
Segment net income	11,386	36,154	29,641	77,181
Segment assets	631,022	1,426,555	2,461,831	4,519,408

15. Commitments

Future minimum payments under operating leases and other commitments are as follows:

2003	$ 10,382
2004	7,430
2005	4,601
2006	3,600
2007	1,696
Thereafter	102
	$ 27,811

16. Risk factors and their management

The Company and its subsidiaries, Dominion and Empire, face various risk factors, inherent in their activities, including risk factors peculiar to insurance operations. These risk factors and their management are described below.

Credit risk, interest rate risk and liquidity risk

The management of investments is conducted in accordance with investment policies that are approved by the Board of Directors. Management's application of these policies is regularly monitored by Board committees. Management and Board committees review credit quality of investment purchases and also monitor the credit quality of invested assets over time.

The management of investments is key to matching policy liabilities and earning an appropriate return on investments matched to equity.

Dominion's executives manage liquidity relative to the anticipated pay-out patterns of general insurance claims and, within those constraints, aim to maximize investment income.

Empire's financial, actuarial and investment executives meet regularly throughout each year to monitor the matching of investments to policy liabilities. This process is designed to ensure that interest rate and liquidity risks are managed appropriately. This matching is particularly important relative to investment products, such as annuities.

Pricing risk

Dominion and Empire price their products with the intention of achieving appropriate profitability in the face of obligations that are uncertain due to a number of factors, including the prospect that they may take many years to mature.

Dominion faces uncertainties involving claims frequency and severity, claims payment trends, investment returns as well as potential changes in legislation and in the interpretation of liability by the courts. Empire faces uncertainties involving mortality, investment returns, expense levels and lapsing of policies.

Product pricing is established through consideration of the companies' actuarial assessment of current claims exposures and anticipated trends in the risk factors described above.

In addition, Dominion and Empire establish policies regarding the amount of risks underwritten which they are prepared to retain, taking into consideration the risk to their available equity. Amounts in excess of that retention are reinsured with external reinsurers.

Business risks

The Company faces a broad range of business risks including: market risks; internal control risks; consumer risks related to sales practices; distribution risks; ongoing strong competition in the insurance marketplace; regulatory constraints on automobile insurance pricing; and various forms of litigation.

The Company and its Board of Directors monitor risks on an ongoing basis, requiring regular reports from management on all key developments and on how planning and other control procedures are being applied to identify and minimize such risks.

To date the Company has not experienced any material adverse effects from such business risks and believes its control procedures will minimize the exposure to such risks in the future.

17. Derivative financial instruments

In the ordinary course of business, as part of an asset-liability management program, the life insurance operation uses various futures contracts, call options and foreign currency forward contracts to match policy obligations that vary with a variety of indices and currencies. In addition, the life insurance operation uses futures contracts to partially match Shareholders' and Policyholders' equity. The notional amounts of these financial instruments are not recognized in the financial statements. The notional amount represents the amount to which a rate or price is applied to determine the cash flow to be exchanged and does not represent direct credit exposure.

(all dollar figures expressed in thousands)

	2002		2001	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Exchange-traded				
Equity index futures	**$ 57,921**	**$ (10)**	$ 108,830	$ 1,767
Over-the-counter				
Equity index options	**550**	**35**	550	162
Foreign currency forwards	**50,406**	**280**	40,146	118
Total	**$ 108,877**	**$ 305**	$ 149,526	$ 2,047

Futures, options and foreign currency forward contracts mature in less than one year.

Fair value represents the estimated cost of replacing all contracts with a positive value at current quoted market prices, net of those in a negative position.

In the Company's opinion, these positions, which are actively monitored, do not represent any unusual risk and no significant losses are anticipated.

18. Cash and cash equivalents

Components of cash and cash equivalents for purposes of the consolidated statement of cash flows are as follows.

	2002	2001
Cash and cash equivalents	**$ 167,927**	$ 169,580
Bank indebtedness	**(24,653)**	(21,403)
	$ 143,274	$ 148,177

Bank indebtedness is included in Other liabilities on the consolidated balance sheet.

19. Contingent liabilities

In connection with its operations, the Company and its subsidiaries are from time to time named as defendants in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions.

20. Comparative information

Certain comparative information has been reclassified to conform to the basis of presentation adopted in 2002.

Summary of Consolidated Results

(all dollar figures expressed in thousands except per share amounts)

	2002	2001 (1)(2)	2000 (2)	1999 (2)	1998 (2)
Premium income	$ 1,107,295	$ 966,826	$ 918,065	$ 875,594	$ 822,513
Gain on sale of investments	18,208	59,643	58,038	20,992	25,439
Amortization of realized and unrealized investment gains	25,802	33,850	38,126	31,611	26,444
Investment and other income	228,858	246,372	252,551	257,064	244,488
Total revenues	1,380,163	1,306,691	1,266,780	1,185,261	1,118,884
Claims and policy benefits	919,681	832,780	811,833	771,982	698,507
Expenses (including commissions)	339,370	292,943	285,041	280,425	282,914
Taxes paid to governments	57,361	93,924	83,913	63,350	65,406
	63,751	87,044	85,993	69,504	72,057
Policyholders' and minority shareholders' portion of income	12,239	9,863	12,918	17,420	14,902
Net income	$ 51,512	$ 77,181	$ 73,075	$ 52,084	$ 57,155
Net income per share	$ 13.41	$ 20.10	$ 19.03	$ 13.56	$ 14.88
Assets					
Cash and cash equivalents	$ 167,927	$ 169,580	$ 207,918	$ 283,733	$ 215,016
Portfolio investments, at market	589,792	615,067	556,400	454,080	457,032
Investments - insurance operations	3,383,939	3,207,849	3,072,883	2,682,227	2,593,366
Reinsurance recoverable	150,087	146,564	142,774	132,227	141,457
Premiums receivable	199,992	154,813	140,876	128,395	116,186
Other assets	239,200	225,535	261,182	254,023	242,832
	4,730,937	4,519,408	4,382,033	3,934,685	3,765,889
Segregated funds	1,702,257	1,860,730	1,873,057	1,846,896	1,777,727
	$ 6,433,194	$ 6,380,138	$ 6,255,090	$ 5,781,581	$ 5,543,616
Liabilities					
Policy liabilities	$ 3,063,182	$ 2,850,066	$ 2,790,435	$ 2,481,750	$ 2,420,619
Other liabilities	292,279	307,096	338,374	336,499	290,474
Policyholders' and minority shareholders' equity in surplus	108,091	113,886	115,848	114,052	105,345
	3,463,552	3,271,048	3,244,657	2,932,301	2,816,438
Capital stock	7,892	7,892	7,892	7,892	7,892
Retained earnings	962,510	912,918	837,657	766,502	713,324
Unrealized appreciation of investments	296,983	327,550	291,827	227,990	228,235
	1,267,385	1,248,360	1,137,376	1,002,384	949,451
	4,730,937	4,519,408	4,382,033	3,934,685	3,765,889
Segregated funds	1,702,257	1,860,730	1,873,057	1,846,896	1,777,727
	$ 6,433,194	$ 6,380,138	$ 6,255,090	$ 5,781,581	$ 5,543,616

(1) certain comparative information has been reclassified to conform to the basis of presentation adopted in 2002

(2) restated for change in accounting policy, see Note 2, page 24

Summary of Life Insurance Operations

(all dollar figures expressed in thousands)

	2002	2001 (1)	2000	1999	1998
Premium income	**$ 405,709**	$ 341,326	$ 324,194	$ 320,932	$ 280,641
Amortization of realized and unrealized investment gains	**25,802**	33,850	38,126	31,611	26,444
Investment and other income	**151,304**	163,435	177,023	185,402	168,181
	582,815	538,611	539,343	537,945	475,266
Policy benefits	**407,069**	362,017	351,752	357,248	307,307
Expenses and commissions	**142,995**	117,600	110,563	105,056	104,971
Taxes	**8,866**	19,490	32,038	26,943	21,766
Profits allocated to policyholders	**9,249**	2,073	4,426	8,904	7,954
Profits to minority shareholders	**2,990**	7,790	8,492	8,516	6,948
Net contribution to E-L	**$ 11,646**	$ 29,641	$ 32,072	$ 31,278	$ 26,320
Premium income by line					
Individual:					
Insurance	**$ 151,664**	$ 146,256	$ 158,001	$ 159,835	$ 145,793
Annuities	**100,795**	68,991	65,583	88,684	75,285
Health	**4,978**	3,606	2,956	1,946	1,584
	257,437	218,853	226,540	250,465	222,662
Group:					
Insurance	**14,360**	11,497	9,350	7,368	6,597
Annuities	**3,040**	1,872	3,394	4,445	2,543
Health	**130,872**	109,104	84,910	58,654	48,839
	148,272	122,473	97,654	70,467	57,979
	$ 405,709	$ 341,326	$ 324,194	$ 320,932	$ 280,641
Assets, including segregated funds	**$ 4,145,680**	$ 4,252,497	$ 4,266,224	$ 3,957,868	$ 3,791,291

Summary of General Insurance Operations

(all dollar figures expressed in thousands)

	2002	2001 (1)(2)	2000 (2)	1999 (2)	1998 (2)
Premium income	**$ 701,586**	$ 625,500	$ 593,871	$ 554,662	$ 541,872
Other income	**8,876**	7,823	7,228	6,457	6,381
Claims	**512,612**	470,763	460,081	414,734	391,200
Operating expenditures including commissions and premium taxes	**218,543**	194,755	192,789	192,345	194,546
Underwriting loss	**(20,693)**	(32,195)	(51,771)	(45,960)	(37,493)
Gain on sale of investments	**10,645**	40,581	53,362	16,630	16,840
Investment income	**49,181**	52,122	50,150	47,651	48,634
Income before taxes	**39,133**	60,508	51,741	18,321	27,981
Income taxes	**13,075**	24,354	19,380	6,402	9,786
Net contribution to E-L	**$ 26,058**	$ 36,154	$ 32,361	$ 11,919	$ 18,195
Claims ratio (to net premiums earned)	**73.1%**	75.3%	77.5%	74.8%	72.2%
Expense ratio (to net premiums earned)	**31.1%**	31.1%	32.4%	34.7%	35.9%
Combined ratio	**104.2%**	106.4%	109.9%	109.5%	108.1%
Net premiums written					
Automobile	**$ 503,636**	$ 412,078	$ 394,493	$ 368,000	$ 340,016
Property	**225,909**	190,921	181,230	174,879	171,884
Casualty	**52,693**	39,898	36,587	33,775	30,999
	$ 782,238	$ 642,897	$ 612,310	$ 576,654	$ 542,899
Assets	**$ 1,597,331**	$ 1,432,304	$ 1,347,593	$ 1,249,185	$ 1,179,643

(1) certain comparative information has been reclassified to conform to the basis of presentation adopted in 2002
(2) restated for change in accounting policy, see Note 2, page 24

Summary of Financial Progress Since the Company's Inception

(all dollar figures expressed in thousands except per share amounts)

Year Ending December 31	Total Assets	Net Premiums	Total Revenues	Shareholders Equity	Net Income	Net Income Per Share
1969	$ 161,787	$ 41,256	$ 49,966	$ 21,447	$ 2,032	$ .61
1970	178,204	48,024	57,637	24,656	2,607	.78
1971	192,863	52,386	62,985	27,007	2,504	.75
1972	212,319	57,570	69,404	30,824	4,352	1.31
1973	234,926	67,732	81,221	34,707	4,278	1.28
1974	257,732	76,487	92,117	37,155	2,118	.63
1975	282,000	88,314	105,793	39,741	2,990	.89
1976	323,131	111,484	131,560	45,824	6,375	1.91
1977	376,428	134,419	158,446	55,047	9,970	2.99
1978	450,606	150,607	179,995	70,323	7,252	2.18
1979	487,206	147,330	181,869	82,604	13,084	3.41
1980	536,926	164,708	204,357	97,422	11,300	2.94
1981	585,110	195,967	242,631	92,162	(1,860)	(.48)
1982	630,645	218,042	273,265	100,691	8,662	2.25
1983	706,425	219,067	281,979	129,134	28,464	7.41
1984	777,270	230,445	300,345	150,766	26,954	7.02
1985	1,118,141	356,232	441,180	140,111	(9,671)	(2.52)
1986	1,400,171	435,795	537,969	154,593	18,436	4.80
1987	1,545,769	480,742	602,617	187,455	21,846	5.69
1988	1,666,086	477,787	610,928	222,944	36,097	9.40
1989	1,832,250	547,353	696,924	256,575	40,258	10.48
1990	1,928,160	568,217	727,841	255,463	7,208	1.88
1991	2,341,396	667,477	820,109	276,464	31,725	8.26
1992	2,783,297	737,292	933,083	322,706	18,700	4.87
1993	2,944,319	706,822	914,718	362,925	41,619	10.84
1994	3,029,425	637,915	812,062	402,734	41,055	10.69
1995	3,052,601	723,330	900,179	443,953	43,555	11.34
1996	3,598,443	766,606	964,533	498,320	57,814	15.05
1997	5,130,087	805,187	1,135,463	667,634	166,386	43.32
1998	5,522,285	822,513	1,109,457	951,114	57,165	14.88
1999	5,756,343	875,594	1,185,846	1,001,548	52,599	13.70
2000	6,253,408	918,065	1,267,189	1,139,691	73,389	19.11
2001	6,385,555	966,826	1,306,988	1,250,974	77,480	20.17
2002	6,433,194	1,107,295	1,380,163	1,267,385	51,512	13.41

This chart is drawn from the individual annual reports and therefore has not been restated for any subsequent changes in accounting policies.

Note:

1985 - The Canadian Indemnity Company was acquired

1986 - Montreal Life Insurance Company was acquired

1991 - Canadian operations of SAFECO Corporation were acquired

1997 - Concordia Life Insurance Company was acquired

- Investment in National Trustco Inc. was sold

1998 - E-L Financial's portfolio investments were recorded at market value versus cost basis

The
DOMINION OF CANADA
General Insurance Company

Corporate Management

President and
Chief Executive Officer
GEORGE L. COOKE

Vice-President and
Chief Information Officer
JANET E. BABCOCK

Vice-President
and Chief Actuary
NATHALIE BÉGIN

Vice-President
Legal and Public Affairs and Corporate Secretary
VIVIAN BERCOVICI

Vice-President Claims
JERRY DALLA CORTE

Vice-President
Field Operations
ALAN J. HANKS

Vice-President
and Chief Financial Officer
R. DOUG HOGAN

Vice-President, Special Claims
LORNE D. McCUBBIN

Vice-President
Human Resources
SHELLY A. RAE

THE EMPIRE LIFE INSURANCE COMPANY

Corporate Management

President and
Chief Executive Officer
DOUGLAS G. HOGEBOOM

Vice-President
Individual Sales and Distribution
LESLIE C. HERR

Vice-President
Employee Benefits
JAKE J. HILBERDINK

Vice-President
Corporate Development
BRENDAN M. McCORMICK

Vice-President
Information Systems
WENDY R. M. MERKLEY

Vice-President
Individual Marketing and Business Development
STEVE S. PONG

Vice-President
Organizational Development
RUTH A. RAPPINI

Vice-President
Financial Management
MICHAEL C. SCHNEIDER